

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
THE AFFILIATE FUNDS**

**December 15, 2008**

~~This policy is effective immediately upon adoption, supersedes the Statement of Investment Policy for the Annuitants' Healthcare Coverage Fund, and incorporates the Judges' Retirement System II, Legislators' Retirement System, Long-Term Care Fund, and the CalPERS Supplemental Contribution Plan Portfolio Fund.~~

**I. ——— PURPOSE**

~~The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.~~

~~This document sets forth the investment policy ("Policy") for the Affiliate Funds ("Affiliates"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the Funds. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with these Funds.~~

~~The Affiliates shall hold an interest in [pooled funds](#) managed by CalPERS.~~

**II. ——— STRATEGIC OBJECTIVE**

~~The Affiliates shall be managed to accomplish the following:~~

- ~~A. ——— Achieve the highest total rate of return reasonably possible within prudent levels of risk and liquidity;~~
- ~~B. ——— Provide sufficient liquidity to meet all cash needs;~~
- ~~C. ——— Enhance the Affiliates' total rate of return by ensuring that the asset class policy ranges approved by the Committee are adhered to, and that any rebalancing is performed efficiently and prudently; and~~
- ~~D. ——— Maintain sufficient diversification to avoid significant losses and preserve capital.~~

### III. ~~RESPONSIBILITIES~~

A. ~~CalPERS Investment Staff ("Staff") is responsible for the following:~~

- ~~1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark;~~
- ~~2. Providing individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, policy targets and ranges;~~
- ~~3. Managing the Affiliates' asset class allocations within Policy ranges approved by the Committee, in accordance with Policy guidelines (see Attachments A–E);~~
- ~~4. Reporting internally to senior management concerning the implementation of this Policy. This report shall be prepared at least monthly to include, but is not limited to, the current market value and allocations by asset class compared to the asset allocation targets; and,~~
- ~~5. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of any violations and appropriate recommendations for corrective action.~~

B. ~~The [General Pension Consultant](#) ("Consultant") is responsible for:~~

- ~~1. Performing individualized asset allocation studies as directed by staff and recommending asset allocation strategies; and~~
- ~~2. Monitoring, evaluating, and reporting, at least quarterly, to the Committee on the performance of the Affiliates relative to the benchmark and Policy.~~

### IV. ~~PERFORMANCE OBJECTIVE AND BENCHMARK~~

A. ~~The benchmark for Affiliate Funds is specified in the Benchmark Modification and Benchmark Details Policy.~~

B. ~~CalPERS shall invest the assets of each of the Affiliates to meet or exceed the individualized actuarial rate over the long term.~~

### V. ~~INVESTMENT APPROACHES AND PARAMETERS~~

**A. ~~Philosophy and Approach~~**

~~The Affiliates shall be managed in accordance with the CalPERS Total Fund Statement of Investment Policy and in a manner consistent with the respective investment policy governing each pooled fund managed by CalPERS. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.~~

**B. ~~Strategic Asset Allocation Process~~**

~~A comprehensive Asset Allocation Strategy analysis shall be completed at least once every three years for each Affiliate and will be presented to the Committee for review and approval of the asset class target allocations and permissible ranges. The Chief Investment Officer (CIO) may recommend a more frequent analysis if expected returns, risks or liability values have substantially changed since the prior analysis. The CIO may also recommend to the Committee changes in the policy targets and ranges. A target for cash is exempt from consideration.~~

**C. ~~Fund Structure/Parameters~~**

~~Staff shall manage the Affiliates in accordance with the approved strategic asset allocation. In order to increase the investment opportunities, the Affiliates shall hold an interest in pooled funds managed by CalPERS. CalPERS Master Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for each asset class in each of the Affiliates.~~

**D. ~~Asset Class Policy Targets and Ranges~~**

~~The Committee shall approve policy asset allocation targets and ranges expressed as a percentage of total assets. The Committee shall set policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.~~

~~The asset class policy target allocations and permissible ranges for each Affiliate are listed in Attachments A – E, as follows:~~

~~Attachment A—Annuitants' Healthcare Coverage Fund~~

~~Attachment B—Judges' Retirement System II~~

~~Attachment C—Legislators' Retirement System~~

~~Attachment D—Long-Term Care Fund~~

~~Attachment E—Supplemental Contribution Plan Portfolio Fund~~

#### ~~E.—Rebalancing~~

~~Asset class allocations shall be managed to be within policy ranges. Allocations may temporarily deviate from policy ranges due to extreme market volatility. In this case, the asset allocation will be returned to within its policy range in a timely manner, with the exact time period dependent upon transaction costs and liquidity.~~

~~Changes in asset class allocations may be achieved by the movement of capital between asset classes through the trading of pooled funds or through the use of derivatives. The intent is for asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.~~

#### ~~F.—Restrictions, Prohibitions and Authorized Securities~~

~~Restrictions, Prohibitions and Authorized Securities of the Affiliates are defined in the policy governing each asset class pooled fund.~~

### ~~VI.—CALCULATIONS AND COMPUTATIONS~~

~~Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis, as recorded by CalPERS custodian.~~

### ~~VII.—GLOSSARY OF TERMS~~

~~Key words used in this policy are defined in CalPERS Master Glossary of Terms.~~

Approved by the Policy Subcommittee: \_\_\_\_\_ August 18, 2008  
 Adopted by the Investment Committee: \_\_\_\_\_ September 15, 2008  
 Revised by the Investment Committee: \_\_\_\_\_ December 15, 2008  
 Admin changes made due to Policy Review Project: June 16, 2009  
 Admin changes due to adoption of Benchmark Policy: \_\_\_\_\_ September 28, 2009

**ANNUITANTS' HEALTHCARE COVERAGE FUND****September 15, 2008**

The Annuitants' Healthcare Coverage Fund (also known as the California Employers' Retiree Benefit Trust Fund) was established March 1, 2007. The Fund is a Section 115 Trust set up for the purpose of receiving employer contributions that will prefund health and other post-employment benefit costs for retirees and their beneficiaries consistent with Governmental Accounting Standards Board (GASB) 43 and 45. California government agencies, including schools, may enter into an agreement with CalPERS to participate.

**Strategic Asset Allocation***Adopted January 16, 2007*

Asset Class	Policy Allocation	Policy Range
U. S. Equity	35%	30%—40%
Int'l Equity	29%	24%—34%
U. S. Fixed Income	20%	17%—23%
REITs	10%	7%—13%
High Yield	6%	3%—9%
Cash Equivalent	0%	0%
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Expected Return:		7.75%
Expected Risk:		11.91%
Return/Risk:		0.65

**JUDGES' RETIREMENT SYSTEM II****September 15, 2008**

The Judges Retirement System II ("JRS II") was established by statute in 1994 to create a fully funded, actuarially sound retirement system for judges appointed or elected on or after November 9, 1994. This system provides a unique combination of two basic types of retirement allowances; a defined benefit plan and a monetary credit plan. The defined benefit plan provides a lifetime monthly retirement allowance of up to 75 percent of final compensation. The monetary credit plan allows for a refund of member contributions, employer contributions, and interest at retirement.

**Strategic Asset Allocation***Adopted August 16, 2004*

Asset Class	Policy Allocation	Policy Range
U. S. Fixed Income	36%	33%—39%
U. S. Equity	34%	29%—39%
Int'l Equity	20%	15%—25%
REITs	10%	7%—13%
Cash Equivalent	0%	0%
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Expected Return:		7.87%
Expected Risk:		10.75%
Return/Risk:		0.73

**LEGISLATORS' RETIREMENT SYSTEM****September 15, 2008**

The Legislators' Retirement System ("LRS") was established by statute to provide retirement benefits to members of the Legislature elected prior to November 7, 1990, elected Constitutional Officers, the Insurance Commissioner, and Legislative Statutory Officers.

**Strategic Asset Allocation***Adopted March 15, 2004*

Asset Class	Policy Allocation	Policy Range
U. S. Fixed Income	50%	47% - 53%
U. S. Equity	30%	25% - 35%
Int'l Equity	10%	6% - 14%
TIPs	10%	8% - 12%
Cash Equivalent	0%	0%
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Expected Return:		7.73%
Expected Risk:		8.78%
Return/Risk:		0.88

**LONG-TERM CARE FUND****September 15, 2008**

~~The CalPERS Long-Term Care Program (“the Program”) is a voluntary program. Financial solvency for the Program relies on premiums paid by policy holders and the investment earnings on those premiums. The Program is directed by the CalPERS Board of Administration.~~

~~The Long-Term Care Fund (“LTC”) was established by statute to administer and finance the Program. The Fund is a trust fund that is maintained exclusively for the benefit of the Program’s covered members. The Fund receives income from two sources: member premiums and investment returns.~~

**Strategic Asset Allocation***Adopted March 14, 2005*

Asset Class	Policy Allocation	Policy Range
U. S. Fixed Income	30%	27% – 33%
U. S. Equity	29%	22% – 34%
Int'l Equity	19%	14% – 24%
High Yield	10%	8% – 12%
TIPs	7%	5% – 9%
REITs	5%	3% – 7%
Cash Equivalent	0%	0%
Expected Return:		7.79%
Expected Risk:		9.82%
Return/Risk:		0.79



**SUPPLEMENTAL CONTRIBUTION PLAN PORTFOLIO FUND****September 15, 2008**

The Supplemental Contribution Program ("SCP") was established in January 1994 as a defined contribution plan under Section 401(a) of the Internal Revenue Code. The SCP allows public employees who are members of CalPERS to make voluntary after tax contributions to supplement their CalPERS benefits. Earnings in this Program grow tax deferred until they are distributed. One of the investment options available to SCP participants is the Supplemental Contribution Plan Portfolio Fund.

**Strategic Asset Allocation***Adopted February 14, 2000*

Asset Class	Policy Allocation	Policy Range
U. S. Equity	52%	none
U. S. Fixed Income	28%	none
Int'l Equity	20%	none
Cash Equivalent	0%	0%

Expected Return:	8.05%
Expected Risk:	12.26%
Return/Risk:	0.66